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Hawker Industries Limited / 1970 ANNUAL REPORT

Contents

Notice of Annual General Meeting

The Annual General Meeting of Shareholders will be held in the Ontario Room of the Royal York Hotel, Toronto, Ontario, on Friday, May 28th, 1971 at 2:30 p.m., E.D.T. A notice of the meeting, an information circular, and a proxy form are enclosed with this report to the shareholders.

Hawker Industries Limited

Head Office

7 King Street East, Toronto 1, Ontario, Canada

Directors

R. S. Faulkner, Toronto, Ontario

A. A. Bailie, Toronto, Ontario

M. E. Davis, Oakville, Ontario

J. F. Howard, Q.C., Toronto, Ontario

J. H. Ready, Islington, Ontario

Executive Management

R. S. Faulkner, Chairman and President

A. A. Bailie, Vice-President, Finance

I. E. Bull, Treasurer

J. H. Ready, Secretary

C. A. Haines, Assistant Secretary

Auditors

Price Waterhouse & Co., Toronto, Ontario

Transfer Agent

National Trust Company, Limited, Toronto, Ontario

Registrar

Montreal Trust Company, Toronto, Ontario

FINANCIAL DATA IN BRIEF

(in thousands of dollars except per share data)

	1970	1969
Consolidated net sales	$83,578	$64,239
Depreciation	949	791
Income (loss) from operations before taxes	2,164	(1,950)
Income taxes	1,111	202
Income (loss) before extraordinary item	1,053	(2,152)
Per common share	.35	(.73)
Extraordinary item	432	—
Net income (loss) for the year	1,485	(2,152)
Per common share	.50	(.73)
Items credited (net) to deficit	1,079	—
Working capital	9,630	9,646
Capital expenditures	1,289	1,111
Shareholders' equity	12,249	9,504

TO THE SHAREHOLDERS:

Your directors submit herewith the audited accounts of Hawker Industries Limited and its consolidated subsidiaries for the year ended December 31, 1970 and report as follows:

Income

On consolidated net sales of $83.5 million (1969: $64.2 million) income from operations before taxes was $2,163,711 in 1970 compared with a loss of $1,950,303 incurred in 1969. The provision for income taxes does not reflect tax reductions of $432,000 arising from losses of prior periods which are treated as an extraordinary item of income. This manner of presentation conforms with a recent recommendation of the Canadian Institute of Chartered Accountants.

Accordingly, income for the year before the extraordinary item amounted to $1,052,711 compared with a loss of $2,152,303 in 1969. This is equivalent to earnings of 35 cents per issued Common share (1969: 73 cents loss). Net income for the year was $1,484,711 compared with the loss of $2,152,303 in 1969 and was equivalent to earnings of 50 cents per issued Common share (1969: 73 cents loss).

Reduction of Deficit

Upon reassessment of obligations under long term supply contracts, the Company has reduced its provision for special costs and losses. The accumulated cost of settling certain of these obligations has been less than anticipated, permitting restoration of $1,368,523 to deficit account. It is felt that the remaining provision is adequate to absorb such losses as may occur when all obligations are determined.

On December 30, 1970, Dosco Overseas Engineering Limited, a wholly-owned United Kingdom subsidiary, acquired full ownership of another British company, Hollybank Engineering Company Limited, which is engaged in a complementary coal mining equipment business. Hollybank's accounts at December 31, 1970 have been brought into consolidation and the goodwill element of the purchase price has been written off against deficit.

The deficit now stands at $2,731,655 compared with $5,296,026 a year ago.

Comment

This year the Company and its subsidiaries had much improved results.

The Canadian Bridge Division, however, was not a contributor to this improvement and steps were taken early in 1970 to curtail unprofitable lines of structural steel fabrication. The Division is concentrating on products such as masts and towers for the electrical and electronic industries and showed a favourable trend in the latter part of the year.

Trenton Works Division had a successful year of operations. Railway axle production reached the highest level in many years and over 2000 units of rolling stock were delivered to customers. Much of the railcar production volume stemmed from the demand for cars to move coal from pits in Western Canada to seaboard. A good level of work was also maintained on the tank car production line. The order book ensures a reasonable level of activity for the first few months of 1971, although if this is to continue further orders must be secured at an early date.

Both offshore drilling rigs constructed by Halifax Shipyards were delivered in 1970, and the results for the year have borne a charge of $2,235,000 in respect of losses on these rigs (1969: $2,350,000). The improved construction performance on the second rig and experience gained has, however, resulted in acceptance of an order for a third such rig for delivery in 1972 at an improved price. This, together with other work underway, ensures a year of full activity at the yards.

Dosco Overseas Engineering Limited achieved record results in 1970 following growing demand for its successful line of coal mining equipment. Initial deliveries were made of two new machines introduced in 1970. Acquisition of Hollybank Engineering Company Limited, referred to earlier, will broaden the product range to include mine arches and roof supports of several types for which there is a steady demand.

Some progress was made in 1970 toward eventual settlement of the compensation for the expropriation in 1968 of collieries previously owned by the Company and for the expropriated collieries of Dominion Coal Company, Limited in which it has a shareholding. An amount of compensation has been offered in court proceedings, but negotiations are continuing to obtain an improvement.

Share Capital

During 1970 the Company issued 36,000 Common shares upon which the directors placed a value of $5.00 per share for the purchase of several parcels of land for future development in Surrey on the outskirts of Vancouver, B.C.

Outlook

The companies enter 1971 with lower order books than at the same time in 1970, although some sectors have good forward workloads. All face rising costs on a broad front while strong competition for available work retards needed price increases. It is considered that the upsurge in volume experienced in 1970 is unlikely to continue throughout 1971.

Submitted on behalf of the Board

R. S. FAULKNER
Chairman and President

Toronto, Ontario, March 19, 1971.

COMMENTS ON OPERATIONS

Canadian Bridge Division

Markets for both fabricated structural steel and electric transmission towers continued to be highly competitive throughout 1970. Selling prices allowed very low profit margins.

As a result, steps were taken to concentrate on serving the market for masts and towers and to curtail or eliminate heavy structural steel products.

Total tower production was slightly below the 1969 level. However, substantial sales were made to a United States power company and an order was received for hydro towers for a West African country which will be completed in 1971. The Division received its first contract for the supply of hydro poles designed specifically for built-up areas where aesthetic value is important.

A strike by plant steelworkers, which started in mid-December, was still in effect at year end.

Halifax Shipyards Division

The main event of 1970 operations at the Shipyard was the completion in April and December of two semi-submersible, offshore drilling vessels. These giant vessels displacing some 19,000 tons will be engaged initially in exploration work off the coasts of Nova Scotia and Newfoundland. A contract for the construction of a third unit was received early in 1971 and is scheduled for completion in 1972.

The Division also completed the fabrication of a module-style hull and other components for a rail car ferry which will operate on Lake Titicaca high in the Andes mountains of Peru. Transported from Halifax via ship to seaport in Peru, modules will then be taken by rail to Puno on Lake Titicaca where the vessel will be assembled and launched.

Work started in the conversion and refit of HMCS Restigouche and HMCS Kootenay but, in general, ship repairs were less than expected for the second half of 1970. The activities of the Dartmouth yard, which deals with small ships, were curtailed during the second half of the year as a result of the derailment of their largest slipway which caused extensive damage.

Government decisions to provide subsidies on the construction of foreign vessels and to provide financing is expected to stimulate new ship construction.

Trenton Works Division

The Division had a particularly successful year in which sales volume was almost 45% higher than in 1969.

Several factors contributed to the increase including a large carry-over of rail car orders from the previous year. In addition, railroads added to their normal requirements by ordering cars to move coal for export from western coalfields to Pacific coast ports. Rail tank car business which was slow in the first six months of 1970 showed considerable improvement in the second half of the year.

Total deliveries of railroad rolling stock reached 2032 units, the largest single run being 1000 covered hopper cars for Canadian National Railways. A number of aluminum covered hopper cars of an experimental design were produced for CNR.

Railway axle production reached the highest level in many years and a significant increase in heavy forging and machining work was experienced.

The modernization program is progressing and the first phase is now nearing completion.

Orders carried forward into 1971 will maintain a fairly high production level in the early part of the year but new bookings for onward production have been disappointing to date.

Dosco Overseas Engineering Limited

Domestic sales of mining equipment manufactured by this United Kingdom subsidiary increased significantly over the previous year.

Production increases were greatest for the Dint Header, a machine which re-cuts the surface of underground roadways, and Tracked Ripping Machines, which were introduced towards the end of 1969.

Export of new machines did not reach expectations but the sale of spare parts and assemblies to overseas customers rose appreciably.

The company introduced two new machines in 1970, namely the Twin Boom Miner, and the Roadheader Mk 2A. Both machines are considerably larger and have improved capability. Reliability trials have been most satisfactory and enquiries for these new models are most encouraging.

This company acquired Hollybank Engineering Company Limited which brings with it a complementary range of products of considerable potential.

Interest in Collieries

As reported in previous years, the Company acquired from Dosco the assets of Old Sydney Collieries and of Acadia Coal together with 26,521 preferred shares of Dominion Coal Company, Limited (Domco) and all the common shares of that company. The assets and business of Acadia coal were sold in 1968. On March 30, 1968, Cape Breton Development Corporation (Devco), a Crown corporation, expropriated virtually all of the operating assets of Old Sydney Collieries and those of Domco and its subsidiary companies.

Following years of sporadic negotiations, which commenced prior to the expropriation proceedings, an amount offered by Devco in court proceedings relating to the expropriated assets was placed before the shareholders of Domco at a Special General Meeting held on September 24, 1970. The Domco shareholders directed that settlement of all outstanding matters could be agreed if an improvement of $1,000,000 to Devco's offer could be obtained. Negotiations are continuing under this mandate. It is not possible to predict when negotiations will be completed.

Auditors' Report

To the Shareholders of Hawker Industries Limited:

We have examined the consolidated balance sheet of Hawker Industries Limited and consolidated subsidiaries as at December 31, 1970 and the consolidated statements of income and deficit and source and application of working capital for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1970 and the results of their operations and the source and application of their working capital for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.
Chartered Accountants

Toronto, Ontario, March 19, 1971.

CONSOLIDATED STATEMENT OF INCOME AND DEFICIT
for the year ended December 31, 1970

	1970	1969
Consolidated net sales	$83,578,301	$64,239,114
Income (loss) from operations before the items shown below	$ 3,381,736	$ (877,019)
Miscellaneous income	7,395	40,058
	3,389,131	(836,961)
Interest expense	276,591	322,802
Provision for depreciation	948,829	790,540
	1,225,420	1,113,342
Income (loss) from operations before income taxes	2,163,711	(1,950,303)
Provision for income taxes	1,111,000	202,000
Income (loss) before extraordinary item	1,052,711	(2,152,303)
Income tax provision not required by reason of losses carried forward from prior years (Note 7)	432,000	—
Net income (loss) for the year	1,484,711	(2,152,303)
Deficit at the beginning of year	(5,296,026)	(3,143,723)
	(3,811,315)	(5,296,026)
Provision for special costs and losses no longer required (Note 6)	1,368,523	—
Goodwill written off on acquisition of a subsidiary on December 30, 1970	(288,863)	—
Deficit at the end of year	$ (2,731,655)	$ (5,296,026)
Earnings per share:		
Before extraordinary item	35¢	(73¢)
After extraordinary item	50¢	(73¢)

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEET – December 31, 1970

ASSETS	1970	1969
Current Assets:		
Cash	$ 486,996	$ 474,829
Short term investments, at cost (approximately market value)	—	445,091
Accounts receivable	11,664,477	11,747,791
Due from affiliated companies	857,775	139,791
Inventories, at lower of cost and estimated realizable value, less progress payments	10,531,795	11,634,596
Prepaid expenses	157,145	33,499
	23,698,188	24,475,597
Other Assets:		
Coal mining interests (Note 2)	1,872,718	1,872,718
Other investments, at cost	25,601	25,601
	1,898,319	1,898,319
Fixed Assets, at cost (Note 3):		
Land, buildings, machinery and equipment	30,706,314	29,599,367
Less – Accumulated depreciation	20,165,150	19,662,089
	10,541,164	9,937,278
	$36,137,671	$36,311,194

See accompanying notes to consolidated financial statements.

LIABILITIES	1970	1969
Current Liabilities:		
Bank advances (Note 4)	$ 1,736,305	$ [illegible]
Accounts payable and accrued liabilities	9,349,209	9,335,828
Income and other taxes payable	2,080,798	1,514,438
Due to affiliated companies	901,598	443,767
	14,067,910	14,829,160
Provisions:		
Unfunded pensions (Note 5)	7,195,986	7,614,289
Special costs and losses (Note 6)	2,625,000	4,363,341
	9,820,986	11,977,630
Capital Stock and Deficit:		
Capital stock –		
Common shares without nominal or par value –		
Authorized – 3,000,000 shares		
Issued – 2,996,086 shares (2,960,086 shares in 1969 – Note 8)	14,980,430	14,800,430
Deficit	2,731,655	5,296,026
	12,248,775	9,504,404
	$36,137,671	$36,311,194

Approved on behalf of the Board:
R. S. Faulkner, Director
A. A. Bailie, Director

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF WORKING CAPITAL
for the year ended December 31, 1970

	1970	1969
Source:		
Net income (loss) for the year	$1,484,711	$(2,152,303)
Non-cash items included in determination of net income (loss) –		
Depreciation	948,829	790,540
Deferred income taxes	—	(279,752)
Funds provided (lost) from operations	2,433,540	(1,641,515)
Shares issued (Note 8)	180,000	—
Fixed asset disposals	11,463	20,672
Decrease in other investments	—	3,953
	2,625,003	(1,616,890)
Application:		
Additions to fixed assets	1,288,973	1,111,384
Reduction in provision for unfunded pensions (Note 5)	418,303	265,890
Charges to provision for special costs and losses (Note 6)	369,818	970,208
Reduction in working capital on purchase of subsidiary	564,068	—
	2,641,162	2,347,482
(Decrease) in working capital	(16,159)	(3,964,372)
Working capital at the beginning of year	9,646,437	13,610,809
Working capital at the end of year	$9,630,278	$ 9,646,437

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 1970

1. Financial Statements:

The consolidated financial statements include the accounts of all subsidiary companies except Dominion Coal Company, Limited (Domco). The accounts of Domco are not consolidated because that company ceased operations March 30, 1968 on the expropriation of substantially all of its assets (see note 2).

2. Coal Mining Interests:

	1970	1969
Shares in subsidiary not consolidated, at cost .... Comprising all the issued common shares and 26,521 preferred shares of Domco.	$ 331,514	$ 331,514
Coal mining inventories and properties	1,541,204	1,541,204
	$1,872,718	$1,872,718

On March 30, 1968 the Cape Breton Development Corporation expropriated substantially all of the assets of Domco and the major part of the coal mining inventories and properties. The compensation to be paid has yet to be established but it is not expected that losses will be incurred.

3. Fixed Assets:

Fixed assets acquired on commencement of operations on January 1, 1968 are recorded at cost to Dominion Steel and Coal Corporation, Limited, (Dosco), the former parent company together with depreciation accumulated to that date. Subsequent additions to fixed assets are recorded at cost.

4. Bank Advances:

Bank advances of $1,736,305 are secured by a general assignment of accounts receivable and an assignment of inventories.

5. Pensions:

The present value of past service pension obligations is approximately $7,000,000. Settlement of these obligations will result in annual charges to the provision for unfunded pensions set aside for that purpose and in charges to operations of approximately $250,000 annually for the next twenty years. During 1970 $418,303 was charged to the provision for unfunded pensions and $248,425 was charged to operations in respect to past service pension obligations.

6. Provision for Special Costs and Losses:

During the year ended December 31, 1970 an amount of $369,818 was charged to the provision for special costs and losses for payments made in 1970, and for payments agreed to be made in 1971 classified as accounts payable, in respect of the obligations under long term commodity supplies contracts assumed by the Company on the purchase in 1968 of various assets and operations from Dosco. In the opinion of management an amount of $2,625,000 is a reasonable estimate at this time of the additional special costs and losses which may be incurred on the remaining contractual obligations. Accordingly, an amount of $1,368,523 has been applied in reduction of the deficit account.

7. Income Taxes:

As at December 31, 1970 the Company had available, for reduction of future taxation, income tax benefits of approximately $550,000. By reason of not claiming capital cost allowances in loss years these benefits will derive from allowances which may be claimed in future years.

8. Capital Stock:

During 1970, 36,000 shares were issued for a consideration of $180,000 as determined by the directors in part payment for the purchase of land.

9. Remuneration of Directors and Officers:

For the years 1970 and 1969 no remuneration was paid by the Company or its subsidiaries to its directors and officers.

Divisions, Subsidiaries and Principal Products

DIVISIONS

Canadian Bridge Division, Windsor, Ontario
Cranes
Pollution control equipment
Masts
Transmission towers and poles

Halifax Shipyards Division, Halifax, Nova Scotia
Offshore drilling vessel construction
Naval and merchant shipbuilding
Ship repairs

Trenton Works Division, Trenton, Nova Scotia
Heavy forgings
Industrial and mine cars
Railway axles
Railway rolling stock
Storage and pressure tanks

SUBSIDIARIES

Dosco Overseas Engineering Limited, Aylesbury, England
Coal mining equipment
"Dosco Dint Header"
"Dosco Roadway Cutter-Loader"

Hollybank Engineering Company Limited, Aylesbury, England
Underground roadway support

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